Policy Briefing

Financial Omnibus:
Time has come to be effective in helping farmers to cope with climate risks

October 2017

If we look back on the last decades, no single year has passed without emergency measures being raised and discussed at Council level, with the aim to help farmers to cope with drought, floods, or frost. Climate risks are permanent concerns for European producers, even with additional stress caused by the uncertainty of potential public support.

Until now these risks are being mainly managed in the «traditional» way: emergency meetings triggered by farmers' mobilization; search for budget margins at regional, national and European level to help producers to stay in business. Depending on the budgetary constraints, media attention and political priorities, farmers can get a support from the society to overcome climate risks.

Strengthening the CAP toolbox

The Omnibus package offers the possibility to improve the EU regulation in order to develop further the risk management tools, going beyond the first pillar direct support which is and should remain the first layer of public support – the first safety net.This Basic Income Support is not strong enough to cover the growing consequences of climate change and guarantee the resilience of the EU farming sector.

Strengthening the risk management tool box offers the possibility to move away from a case by case uncertain coverage of climate risks to a more pragmatic, reliable system offering a clear economic safety net for farmers, with stable guarantees in case of a natural disasters.

Climate insurances have proven to be an efficient and complementary tool at global level. Therefore, we believe that time has come for the European Union to make tracks!

The low level of insurance coverage in Europe is the consequence of the lack of attractiveness of the EU schemes.

At the moment, the Common Agricultural Policy allows a 65% co-financing of premium insurances as long as they are triggered only in case of damages of at least 30% losses.

Agronomic conditions within the European Union make this scheme not attractive for farmers, given that losses higher than 30% are very rare, and that 20% losses – taking into account the low level of profitability of most EU farms – are already a real risk.

The situation in Third Countries (i.e. USA, etc.) or in the most advanced European Member States (Spain for instance, where farmers enjoy a national scheme, which is authorized under the State Aid rules by the European Commission) shows that coherent thresholds in line with real risks allows a wide development of insurance coverage, even at 60 to 80% coverage for certain crops.

Is it costly for the CAP?

The arable crop area in the European Union represents 74 million hectares for a total capital to be insured of about 76,5 billion euros.

For vineyards, the area represents 3 million hectares for a total capital to be insured of about 20,3 billion euros.

When it comes to pastures, they represent 70,5 million hectares for a capital to be insured of a bit less than 46 billion euros.

Thus, when it comes to climate insurances this aspect could be developed, the premium that would be co-financed if 100% of arable crop, vineyards and pastures areas were covered by crop insurances, would represent a bit more than ,2 billion euros per year, meaning a 4,7 billion euros cost for the CAP in case of a 100% coverage which would be totally hypothetical, and would never happen at the end of the day.

A more credible objective would be to cover maximum 60 to 70% of arable crops areas – 40% would already be an optimistic aim! For pasture, a coverage of 50% would certainly be a maximum. While, when it comes to vineyards, 70 to 80% coverage would represent a maximum as well.

Under these conditions, if all Member States decided to trigger these voluntary schemes in the second pillar, voluntary as well for farmers, the level of co-financing for a new enhanced scheme working in full swing, would be at 2,8 billion euros per year, meaning a maximum of 5% of the budget of the CAP (or 7% of the first pillar budget).

This amount would be divided as follow between the different sectors:

- 1,2 billion EUR for arable crops
- 0,7 billion EUR for vineyards
- 0,9 billion EUR for pastures.

Is the WTO argument valid?

The EU commitments within the WTO framework are far from being a barrier to the improvements of the EU risk management toolbox. This argument is only based on political objectives.

If subsidies to crop insurance premium are included in the WTO green box when the trigger is at 30% or more and a 70% maximum compensation of losses, a co-financing public support with a threshold at 20% is undoubtedly possible as long as the EU can notify it in the framework of the « *de minimis* clause » (not the EU de minimis rules concerning State Aid). The EU margins in this de minimis clause are well beyond the 2,8 billion EUR that might be notified to the WTO if the insurances systems was improved.

Beyond the amount – small when compared to the overall CAP budget – the strategic dimension of such a move at EU level, and the fact that the competitors of the European Union do not value such arguments to go forward, makes the WTO argument basically not valid. The economic ambition and challenge ahead, should go over any reluctance linked with WTO, especially considering the move of the European Commission itself which proposed to improve the triggering of the Income Stabilisation Tool at 20%.